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# **NYANDENI LOCAL MUNICIPALITY**

**2017/18**



## **TARIFF POLICY**



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### **Preamble**

**AND WHEREAS** Section 74 of the Local Government: Municipal Systems Act 32 of 2000 provides that a Municipal Council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act and with any other applicable legislation.

The Council of Nyandeni Local Municipality adopts the following policy:

- [1]** The Council acknowledges that its tariff policy shall comply with the following guiding principles:
- [i] That users of municipal services should be treated equitably in the application of tariffs
  - [ii] That the amount individual users pay for services should generally be in proportion to their use of that service;
  - [iii] That poor households must have access to at least basic services through:
    - [a] tariffs that cover only operating and maintenance costs,
    - [b] special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of service; or
    - [c] any other direct or indirect method of subsidisation of tariffs for poor households;
  - [iv] That tariffs must reflect the costs reasonably associated with rendering a service, including capital, operating, maintenance, administration and replacement costs and interest charges;
  - [v] That tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned;
  - [vi] That provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
  - [vii] That provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
  - [viii] That the economical, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives are encouraged;



[ix] That the extent of subsidisation of tariffs for poor households and other categories of users should be fully disclosed.

[2] That rates, tariffs, charges, fees, levies and surcharges for the maintenance of municipal services shall be so structured that, with due regard to the principles contained in Section 1, the under-mentioned goals shall be achieved:

**[a] Goal 1: A Minimum Amount of Basic Services must be Free.**

The Municipality subscribes to the policy that everybody is entitled to a minimum amount of free basic services. A basic service is a service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety of the environment. The Municipality should aim to achieve the goal of providing a minimum amount of free basic services to everyone, where possible.

The specific services are:

- Potable water;
- Domestic waste, water and sewage removal;
- Domestic refuse removal;
- Electricity; and
- Municipal health services.

The Council is aware that it currently does not provide these services to all residents within its municipal area. It is also aware that, more than likely, some of the services it currently provides in conjunction with the abovementioned services, may be transferred or assigned to other bodies. In the latter case, the Council commits to make representations and negotiate with those service providers to achieve its goal.

The Council realizes that, in order to achieve its goal, a minimum amount of basic services should be free. Tariffs for services above the minimum level and property rates will have to be increased to assist with the offsetting of the free basic services.

In order to ensure affordable services, the Council will introduce a stepped tariff structure in which consumers that use more of a service, will pay progressively more for higher consumption than those who consume less of a service.



**[b] Goal 2: Keeping Tariffs Affordable.**

The Council is keenly aware of the financial situation of most residents within the municipal area. Therefore, the Council undertakes to keep tariffs at affordable levels.

The Council is also aware that, due to historical reasons, many residents receive services at a level higher than what they can afford.

In order to ensure that tariffs remain affordable, the Council will ensure that:

- Services are delivered at an appropriate level;
- Efficiency improvements are actively pursued across the Municipality's operations;
- A performance management system is introduced to ensure that plans that are devised are actually implemented, that resources are obtained as economically as possible, used efficiently and effectively and that appropriate service delivery mechanisms are used;
- Any non-core functions that it currently performs are phased out as soon as possible without depriving the community of any services that really contributes to the quality of life of people in it's area; and
- Any service that is provided for which there is little demand, is priced under the actual cost of providing it and which requires the Municipality to maintain significant infrastructure and other facilities, are phased out, except where the Council is by law required to provide such a service.

To increase affordability for indigent persons, the Council will ensure that its equitable share of revenue raised nationally, will be used to subsidise a certain level of basic services for them.

**[c] Goal 3: Achieving Price Parity for Services and Property Rates.**

The former Councils that were amalgamated to form the Municipality, determined their own tariffs according to their own objectives. This means that there is vast disparity in service tariffs and property rates in the municipal area. The Council believes that all residents and ratepayers must pay the same tariff for the same level and quality of service. Therefore, the Council should achieve price parity within the Municipality within a reasonable period of time.

**[d] Goal 4: Pulling Untaxed Properties into the Tax Net and fully Exploiting Sources of Revenue.**

Property rates are an important source of discretionary revenue for the Municipality. It is used to finance services that cannot be apportioned to individual consumers and to balance the budget after service charges have been determined. It is, therefore, imperative that property rates must be imposed on,



and is payable in respect of, all rateable properties within the municipal area. The Council will, as a first step, ensure that all properties are valued in terms of the applicable legislation during the next financial year. Commencing from the 2003/04 financial years, all rateable properties will be subject to and liable for paying property rates.

The Council is also aware of cases where tariffs are uneconomical and too low in relation to the cost of providing the service concerned. Also, there are cases where the consumption of services that can be measured, apportioned and priced are provided free of charge or at a nominal fee. The Council will ensure that the appropriate service charges are imposed in respect of any service where it this can be done.

In many Municipalities, it has been the practice not to increase tariffs for services and property rates regularly. Where tariffs had been increased, increases were often lower than the inflation rate or increases in the cost of goods and material used for service delivery. Consequently, the revenue bases for many Municipalities were eroded for quite some time. The Municipality, like any other business enterprise is subject to continuous price increases in the goods, materials and other resources that it uses to perform its functions. Consequently it is the policy of the Council:

- That tariffs for service and property rates will be reviewed at least once during every financial year;
- That tariff increases must be in line with increases in the price of goods, material and other resources acquired and used by the Municipality to perform its functions; and
- Further, the tariff for a particular service must be calculated in such a way that all relevant costs are covered. This means that a tariff for a service must include at least the capital expenditure required and interest thereon, the cost of managing and operating the service and the cost of maintaining, repairing and replacing the physical assets used in its provision.

**[e] Goal 5: Introducing the “Consumer Must Pay Principle”.**

Having regard for the abovementioned Council’s policy on a minimum amount of free basic services for all, the Council believes that consumers of services must pay for the amount of services that they use. Where it is possible to measure the consumption of services, the Council intends to install metering systems as in the case of water usage, and to take into account the free service element. In this regard the Council will develop a programme to install meters in appropriate cases. Also, it the Council’s policy that the tariffs for such services must include all relevant cost factors as stated above.

**[f] Goal 6: Redistribution/ Cross-subsidisation.**



It is a fact that some members of the community are better able to afford to pay for the services that they use and benefit from, than others. The budget of the Municipality is an important device in ensuring redistribution within the community. Those that pay higher property rates based on the value of their properties, in fact subsidise those who pay less tax. Also, the Council uses the trading surplus it realises on the trading account to bring relief with regard to property tax rates. Likewise, the Council will ensure that the cross-subsidisation occurs between and within services to further contribute to its redistribution objectives.

**[g] Goal 7: Promoting Local Economic Competitiveness and Development.**

The size of the property rates and service charges accounts presented to local businesses, is a significant business overhead for any business enterprise in the municipal area. The overhead of a business is one of the factors that influence the price of goods and services sold by it, and therefore its profitability and chances of survival. The Council will take care that the municipal account presented to local businesses is fair. To ensure fairness toward local business, the Council will, when it determines tariffs, take into account the desire:

- To promote local economic competitiveness; and
- To promote local economic development and growth.

In order to promote the development and maintenance of residential and non-residential properties alike, the Municipality may levy property rates on site valuation only. In this manner, the Council also contributes to activity in the building industry. This basis for rating will also contribute to keeping the rates liability of business and other economic enterprises as low as possible, thereby contributing to the competitiveness and survival of business.

**[h] Goal 8: Ensuring Financial Sustainability of Service Delivery.**

The Constitution, Local Government Municipal Systems Act, 2000 and Water Services Act of 1997 require that the Municipality must ensure that the services that it provides must be sustainable. Financial sustainability of an enterprise will be achieved when it is financed in a manner that ensures that its financing is sufficient. The tariff for a service must, therefore, be sufficient to cover the cost of the initial capital expenditure required and interest thereon, managing and operating the service and maintaining, repairing and replacing the physical assets used in its provision. However, sustainability does not only mean that the price of the service must include all the relevant cost elements, it also means that the charges to be levied must be collected. The Council will, therefore, adopt and apply a Credit Control and Debt Collection policy to ensure that property rates and service charges are recovered. Where a trading and economic service is available to a property, an availability levy or charge will be imposed if the occupier of the property does not use the service concerned or if the property is vacant. The availability levy, if possible, will be adequate to cover the pro rata



cost of the initial capital expenditure and interest thereon and the maintenance of the infrastructure associated with service delivery.

**[i] Goal 9: Tariff Determination Process.**

Except in special circumstances, such as significant increases in the wholesale price of goods and services that the Council purchases during a year to provide services, the Council will review its tariffs during the preparation of the annual budget in accordance with the policy stated above. Proposed tariffs will be presented to the community during the Council's consultations about the budget.

After the Council has adopted its rates, tariffs, fees, charges and surcharges the Municipal Manager shall, without delay:

- [a] conspicuously display a copy of the resolution adopting such fees, charges or tariffs for a period of at least 30 days at the main administrative office of the municipality and at such other places within the municipality to which the public has access as the Municipal Manager may determine;
- [b] publish in a newspaper of general circulation in the municipality a notice stating-
  - [i] that a resolution as contemplated above has been passed by the Council;
  - [ii] that a copy of the resolution is available for public inspection during office hours at the main administrative office of the municipality and at the other places specified in the notice; and
  - [iii] the date on which the determination will come into operation; and
  - [iv] that any person who desires to object to such determination or amendment must do so in writing within 14 days after the date on which the notice was displayed; and
  - [v] that any person who cannot write may come during office hours to a place where a staff member of the Municipality named in the notice, will assist that person to transcribe his/her objection.
- [c] seek to convey the information referred to in paragraph (b) to the local community by means of radio broadcasts covering the area of the municipality.
- [d] The municipal manager must forthwith send a copy of the notice referred to in subparagraph [b] to the MEC for Housing and Local Government.

If no objection is lodged within the period stated in the notice, the determination or amendment will come into operation on the date determined by the Council.

Where an objection is lodged, the Municipality will consider every objection.



The Council may, after it has considered all objections, confirm, amend, or withdraw the determination or amendment and may determine another, on the date on which the determination or amendment will come into operation.

After the Council has considered the objections it will again give notice of the determination, amendment or date as determined above and will also publish it as determined by the Council.

- [3]** Where the Council establishes Ward Committees or community representative forums, such committees or forums will be consulted prior to the final determination of rates, tariffs, charges, fees, levies and surcharges in terms of this Policy.
- [4]** Notwithstanding anything to the contrary contained in this Policy, the tariffs adopted by the Council shall encourage and promote the objects and programmes contained in its Integrated Development Plan.
- [5]** The Council shall review this Policy by each year to enable amendments made thereto to be reflected in the following annual budget of the Council.